

Huron Valley Schools

**Financial Report
with Supplementary Information
June 30, 2008**

Huron Valley Schools

Contents

| | |
|---|-----------------------------------|
| Report Letter | 1-2 |
| Management's Discussion and Analysis | 3-11 |
| Basic Financial Statements | |
| District-wide Financial Statements: | |
| Statement of Net Assets | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 14 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 15 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 16 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Proprietary Fund - Internal Service Fund: | |
| Statement of Net Assets (Deficit) | 18 |
| Statement of Revenue, Expenses, and Changes in Fund Net Assets (Deficit) | 19 |
| Statement of Cash Flows | 20 |
| Fiduciary Fund - Statement of Fiduciary Assets and Liabilities | 21 |
| Notes to Financial Statements | 22-38 |
| Required Supplementary Information | 39 |
| Budgetary Comparison Schedule - General Fund | 40 |
| Other Supplementary Information | 41 |
| General Fund - Combining Statement of Revenue and Expenditures | 42 |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 43-44 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficits) | 45-46 |
| Schedule of Bonded Indebtedness | 47 |
| Federal Awards Supplemental Information | Issued Under Separate Cover |



Plante & Moran, PLLC
Suite 500
2801 Cumberland Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
planteandmoran.com

Independent Auditor's Report

To the Board of Education
Huron Valley Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Valley Schools as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Huron Valley Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Valley Schools as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48325
Tel: 248.375.7100
Fax: 248.375.7101
planteandmoran.com

To the Board of Education
Huron Valley Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Huron Valley Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under a separate cover dated October 8, 2008 on our consideration of Huron Valley Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 8, 2008

Huron Valley Schools

Management's Discussion and Analysis

This section of Huron Valley Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Huron Valley Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements illustrate how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the 2001 Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of student groups.

Management's Discussion and Analysis (MD&A) (Required Supplementary Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplementary Information)

Budgetary Information for Major Funds

Other Supplementary Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Huron Valley Schools

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, food services, athletics, community services, and bookstore. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services, Athletics, Community Services, and Bookstore Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Huron Valley Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE 1

| | Governmental Activities | |
|--|-------------------------|---------|
| | 2008 | 2007 |
| | (in millions) | |
| Assets | | |
| Current and other assets | \$ 37.2 | \$ 34.4 |
| Capital assets | 211.0 | 217.5 |
| Total assets | 248.2 | 251.9 |
| Liabilities | | |
| Current liabilities | 28.2 | 22.7 |
| Long-term liabilities | 134.8 | 150.3 |
| Total liabilities | 163.0 | 173.0 |
| Net Assets | | |
| Invested in property and equipment - Net of related debt | 65.5 | 60.8 |
| Restricted | 7.1 | 8.1 |
| Unrestricted | 12.6 | 10.0 |
| Total net assets | \$ 85.2 | \$ 78.9 |

Huron Valley Schools

Management's Discussion and Analysis (Continued)

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$85.2 million and \$78.9 million at June 30, 2008 and 2007, respectively. Capital assets, net of related debt totaling \$65.5 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$12.6 million, was unrestricted.

The unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years ended June 30, 2008 and 2007:

TABLE 2

| | Governmental Activities | |
|---|-------------------------|--------|
| | 2008 | 2007 |
| | (in millions) | |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 4.9 | \$ 4.2 |
| Federal and state grants and entitlements | 20.7 | 19.5 |
| General revenue: | | |
| Property taxes | 34.8 | 33.8 |
| State foundation allowance | 63.0 | 63.1 |
| Interest and investment earnings | 2.8 | 2.5 |
| Total revenue | 126.2 | 123.1 |

Huron Valley Schools

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

| | Governmental Activities | |
|-----------------------------------|-------------------------|---------------|
| | 2008 | 2007 |
| | (in millions) | |
| Functions/Program Expenses | | |
| Instruction | \$ 52.9 | \$ 50.2 |
| Support services | 39.3 | 40.2 |
| Food services | 2.8 | 2.9 |
| Athletics | 1.2 | 1.2 |
| Community services | 2.7 | 2.6 |
| Bookstore | 0.1 | 0.1 |
| Interest on long-term debt | 9.8 | 10.2 |
| Depreciation (unallocated) | 11.1 | 11.2 |
| Total functions/program expenses | 119.9 | 118.6 |
| Increase in Net Assets | \$ 6.3 | \$ 4.5 |

As reported in the statement of activities, the cost of all of our governmental activities this year was \$119.9 million. Certain activities were partially funded from those who benefited from the programs, \$4.9 million, or by other governments and organizations that subsidized certain programs with grants and contributions, \$20.7 million. We paid for the remaining "public benefit" portion of our governmental activities with \$34.8 million in taxes, \$63.0 million in state foundation allowance, and \$2.8 million with our other revenues, i.e., interest and general entitlements.

The School District experienced an increase in net assets of \$6.3 million. This was due to an increase in revenue for services (\$600,000), grant revenue (\$1.2 million), property taxes (\$1.0 million) partially offset by a decrease in state revenue (\$100,000), and investment income (\$300,000).

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

Huron Valley Schools

Management's Discussion and Analysis (Continued)

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$22.3 million, which is a decrease of approximately \$1.0 million from last year. The primary reasons for the decrease are as follows:

In the Combined General Fund, our principal operating fund, (which includes the General Fund, the International Academy West, and state and federal grants), the fund balance decreased approximately \$219,000 to \$14.8 million. The General Fund decreased its fund balance by approximately \$576,000. This decrease primarily reflects expenditures from the prior year that were paid in the current year (and designated in the prior year's fund balance), offset by a one-time increase in special education revenue received from prior year's savings at the ISD (Intermediate School District) level. The International Academy West increased its fund balance by approximately \$357,000, which will be used for operations and capital outlay expenditures over the next three to four years.

Our Special Revenue Funds decreased by approximately \$72,000 for the year. While our Food Service Fund made a small profit, the decrease reflects the move of the Pools & Fitness Operation from the General Fund to the Community Recreation & Education Fund. The addition of necessary one-time expenditures also decreased the fund balance of the Community Recreation & Education Fund.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$129,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The combined Capital Projects Funds fund balance decreased by approximately \$843,000 as the School District continued construction related to the 2001 bond issue. The construction project is estimated to be approximately 95 percent complete at June 30, 2008. In addition, the School District collected \$2.8 million in voter-approved sinking fund millage. This millage is available to fund specific capital projects allowed by state law and approved by the voters. Sinking Fund fund balance decreased by approximately \$465,000 due to planned projects completed during the 2007-2008 school year.

Huron Valley Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

Budgeted revenues were decreased approximately \$.8 million primarily due to movement of the Pools & Fitness revenue to the Community Recreation & Education Fund. There were some small adjustments for fund modifications and grant awards.

Budgeted expenditures were increased approximately \$.6 million primarily for prior year's expenditures paid in the current year (and set aside in last year's fund balance), offset by the reduction of expenditures for Pools & Fitness (\$.7 million) that was moved to the Community Recreation & Education Fund.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the School District had approximately \$314.0 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions and disposals) of approximately \$3.0 million, or 1.0 percent, from last year.

| | 2008 | 2007 |
|-------------------------------------|-----------------------|-----------------------|
| Land | \$ 3,857,231 | \$ 3,857,231 |
| Construction in progress | 109,546 | 49,778 |
| Buildings and building improvements | 252,609,690 | 249,906,034 |
| Buses and other vehicles | 5,688,022 | 6,554,257 |
| Furniture and equipment | 51,759,745 | 50,626,583 |
| Total capital assets | <u>\$ 314,024,234</u> | <u>\$ 310,993,883</u> |

This year's additions to buildings, furniture, and equipment of \$4.6 million included new technology, building renovations, and new school construction. These assets were funded by existing bond and Sinking Fund monies.

Huron Valley Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$143.0 million in bonds outstanding versus \$154.4 million in the previous year - a change of 7.4 percent. Those bonds consisted of the following:

| | 2008 | 2007 |
|--------------------------|-----------------------|-----------------------|
| General obligation bonds | <u>\$ 142,954,138</u> | <u>\$ 154,438,298</u> |

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District does not have any unqualified general obligation debt outstanding.

Other obligations include accrued vacation pay, sick leave, early retirement incentives, and other insurance reserves. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008-2009 fiscal year budget. One of the most important factors affecting the budget is the School District's student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-2009 fiscal year is 25 percent of the February 2008 and 75 percent of the September 2008 student counts. The 2008-2009 fiscal year budget was adopted in June 2008 based on an estimate of the students that will be enrolled in September 2008. Approximately 90 percent of the General Fund revenue is from the foundation allowance.

Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. The 2008-2009 budget was based on an estimate of 10,443 students, which was a decrease of 70 students from the 2007-2008 student count. Based on our unaudited student count from September 24, we anticipate that the fall count will be below the estimate by approximately 70 students, for a total decrease of approximately 140 students. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Huron Valley Schools

Management's Discussion and Analysis (Continued)

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to the school districts. The State periodically holds a revenue estimating conference to estimate revenues. Based on the approved budget for the State's 2008-2009 fiscal year, which begins October 1, 2008, the School District will receive a per pupil increase of \$110 in the foundation allowance. The School District had budgeted an increase of \$125 per pupil for the 2008-2009 fiscal year.

To position the School District to deal with changes in pupil estimates and foundation allowances, the School Board approved a board policy in June 2007, that designates part of the fund balance for stabilization. The stabilization fund balance designation will be no less than 5 percent of the total operating expenditures. This stabilization fund balance allows the School District to adjust to changes in revenue estimates after the board has approved the budget for the next school year.

In addition, the School Board authorized a Building Utilization Study Committee to look at the utilization levels of the School District's elementary buildings. The intent was to determine if the buildings were being used to their full capability taking into consideration the declining enrollment in the School District. The School Board, based on the findings from the committee, voted to repurpose an elementary school and provide K-5 instruction using one less elementary building. The former elementary building is repurposed for community-based programs.

The School District's budget for 2008-2009 is projected to decrease overall fund balance. The decrease will reduce the stabilization fund balance designation amount, but is not expected to go below the minimum 5 percent of operating expenditures. The School Board and administration are concerned with the structural deficit (expenditures exceeding revenues) knowing that the School District must present a balanced budget every year. Therefore the School District will work diligently with the employees and the community to continue to look for ways to provide a premier education while reducing operation costs and enhancing revenue, where possible.

Huron Valley Schools

Statement of Net Assets June 30, 2008

| | Governmental Activities |
|--|-----------------------------|
| Assets | |
| Cash and cash equivalents (Note 3) | \$ 15,644,810 |
| Receivables - Net (Note 4) | 14,843,495 |
| Inventories and other current assets | 1,642,948 |
| Restricted assets (Note 8) | 5,042,355 |
| Capital assets - Net (Note 5) | <u>211,018,641</u> |
| Total assets | 248,192,249 |
| Liabilities | |
| Accounts payable | 3,837,020 |
| Accrued payroll and other liabilities | 9,825,690 |
| Accrued interest | 995,065 |
| Deferred revenue | 1,276,080 |
| Long-term liabilities (Note 7): | |
| Due within one year | 12,239,391 |
| Due in more than one year | <u>134,830,956</u> |
| Total liabilities | <u>163,004,202</u> |
| Net Assets | |
| Investment in capital assets - Net of related debt | 65,497,273 |
| Restricted: | |
| Debt service | 2,093,652 |
| Capital projects | 5,042,355 |
| Unrestricted | <u>12,554,767</u> |
| Total net assets | <u><u>\$ 85,188,047</u></u> |

Huron Valley Schools

Statement of Activities Year Ended June 30, 2008

| Functions/Programs | Program Revenues | | | Governmental Activities |
|---|---------------------------|-------------------------|------------------------------------|--|
| | Expenses | Charges for Services | Operating Grants/ Contributions | Net (Expense) Revenue and Changes in Net Assets |
| Primary government - Governmental activities: | | | | |
| Instruction | \$ 52,925,510 | \$ - | \$ 19,597,305 | \$ (33,328,205) |
| Support services | 39,323,914 | - | - | (39,323,914) |
| Food services | 2,758,509 | 1,696,917 | 1,118,942 | 57,350 |
| Athletics | 1,223,388 | 436,057 | - | (787,331) |
| Community programs and services | 2,700,477 | 2,649,178 | - | (51,299) |
| Bookstore | 69,417 | 75,657 | - | 6,240 |
| Interest on long-term debt | 9,817,796 | - | - | (9,817,796) |
| Depreciation (unallocated) | 11,118,212 | - | - | (11,118,212) |
| Total primary government - Governmental activities | <u>\$ 119,937,223</u> | <u>\$ 4,857,809</u> | <u>\$ 20,716,247</u> | <u>(94,363,167)</u> |
| General revenues: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purposes | | | | 12,028,341 |
| Property taxes, levied for debt services | | | | 20,009,497 |
| Property taxes, levied for capital projects | | | | 2,719,174 |
| State aid not restricted to specific purposes | | | | 63,012,799 |
| Grants and contributions not restricted to specific programs | | | | 62,119 |
| Gain on sale of fixed assets | | | | 27,328 |
| Interest earnings and other | | | | <u>2,766,775</u> |
| Total general revenues | | | | <u>100,626,033</u> |
| Change in Net Assets | | | | 6,262,866 |
| Net Assets - Beginning of year | | | | <u>78,925,181</u> |
| Net Assets - End of year | | | | <u>\$ 85,188,047</u> |

Huron Valley Schools

Governmental Funds Balance Sheet June 30, 2008

| | Combined General Fund | 2001 Capital Projects Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------------------------|-------------------------------|---|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 14,037,607 | \$ - | \$ 1,570,747 | \$ 15,608,354 |
| Receivables - Net (Note 4) | 14,842,619 | - | 500 | 14,843,119 |
| Due from other funds (Note 6) | 38,879 | 429,815 | 1,313,499 | 1,782,193 |
| Inventories | 267,260 | - | 174,924 | 442,184 |
| Prepaid expenses | 1,127,764 | - | - | 1,127,764 |
| Restricted assets (Note 8) | - | 3,062,490 | 1,979,865 | 5,042,355 |
| Total assets | \$ 30,314,129 | \$ 3,492,305 | \$ 5,039,535 | \$ 38,845,969 |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 2,252,041 | \$ 7,318 | \$ 598,390 | \$ 2,857,749 |
| Construction contracts payable | - | - | 7,416 | 7,416 |
| Accrued payroll and other liabilities | 9,514,372 | 36,293 | 132,900 | 9,683,565 |
| Due to other funds (Note 6) | 2,651,883 | 47,521 | 64,457 | 2,763,861 |
| Deferred revenue (Note 4) | 1,101,906 | - | 174,174 | 1,276,080 |
| Total liabilities | 15,520,202 | 91,132 | 977,337 | 16,588,671 |
| Fund Balances | | | | |
| Reserved: | | | | |
| Encumbrances | 354,838 | - | - | 354,838 |
| Prepaid and inventories | 1,395,024 | - | 174,924 | 1,569,948 |
| Capital projects | - | 3,401,173 | 1,897,167 | 5,298,340 |
| Debt service | - | - | 2,093,652 | 2,093,652 |
| Unreserved: | | | | |
| Designated for International Academy West | 548,595 | - | - | 548,595 |
| Designated for 08-09 Budget | 2,875,000 | - | - | 2,875,000 |
| Designated for 09-10 Budget | 1,517,000 | - | - | 1,517,000 |
| Designated for stabilization fund | 4,625,087 | - | - | 4,625,087 |
| Designated for compensation agreements | 2,846,327 | - | - | 2,846,327 |
| Designated for specific future expenditures | 632,056 | - | - | 632,056 |
| Undesignated, reported in Special Revenue Funds | - | - | (103,545) | (103,545) |
| Total fund balances | 14,793,927 | 3,401,173 | 4,062,198 | 22,257,298 |
| Total liabilities and fund balances | \$ 30,314,129 | \$ 3,492,305 | \$ 5,039,535 | \$ 38,845,969 |

Huron Valley Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

| | |
|--|----------------------|
| Fund Balance - Total Governmental Funds | \$ 22,257,298 |
|--|----------------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the governmental funds:

| | | |
|--------------------------|----------------------|-------------|
| Capital assets | \$ 314,024,234 | |
| Accumulated depreciation | <u>(103,005,593)</u> | 211,018,641 |

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

| | |
|---|---------------|
| Bonds payable, including bond premium and deferred interest | (142,954,138) |
| Compensated absences and incentive obligations | (2,029,884) |
| Risk liabilities | (514,160) |
| Accreted interest on capital appreciation bonds | (1,572,165) |

Internal Service Funds are included as part of governmental activities. The assets and liabilities of the Internal Service Funds are included in the governmental activities

(22,480)

Accrued interest payable is not included as a liability in governmental funds

(995,065)

Net Assets - Governmental Activities

\$ 85,188,047

Huron Valley Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

| | Combined General Fund | 2001 Capital Projects Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------------------------|-------------------------------|--|--------------------------------|
| Revenue | | | | |
| Local sources | \$ 13,481,966 | \$ 147,070 | \$ 27,962,750 | \$ 41,591,786 |
| State sources | 69,322,536 | - | 166,515 | 69,489,051 |
| Federal sources | 4,016,719 | - | 952,427 | 4,969,146 |
| Interdistrict sources | 9,270,849 | - | - | 9,270,849 |
| Total revenue | 96,092,070 | 147,070 | 29,081,692 | 125,320,832 |
| Expenditures | | | | |
| Current: | | | | |
| Instruction | 50,965,030 | - | - | 50,965,030 |
| Support services | 40,681,231 | - | - | 40,681,231 |
| Community programs and services | 194,039 | - | 2,506,438 | 2,700,477 |
| Food service | - | - | 2,758,509 | 2,758,509 |
| Athletics | - | - | 1,223,388 | 1,223,388 |
| Bookstore | - | - | 69,417 | 69,417 |
| Debt service: | | | | |
| Principal | - | - | 8,315,561 | 8,315,561 |
| Interest | - | - | 8,975,933 | 8,975,933 |
| Other | - | - | 1,777 | 1,777 |
| Capital outlay | 1,350,746 | 525,093 | 3,355,387 | 5,231,226 |
| Interdistrict tuition | 2,106,183 | - | - | 2,106,183 |
| Total expenditures | 95,297,229 | 525,093 | 27,206,410 | 123,028,732 |
| Excess of Revenues Over (Under) | | | | |
| Expenditures | 794,841 | (378,023) | 1,875,282 | 2,292,100 |
| Other Financing Sources (Uses) | | | | |
| Transfers in (Note 6) | 84,016 | - | 3,226,837 | 3,310,853 |
| Transfers out (Note 6) | (1,125,062) | - | (2,185,791) | (3,310,853) |
| Proceeds from debt issuance | - | - | 22,046,929 | 22,046,929 |
| Payment to escrow agent | - | - | (25,127,425) | (25,127,425) |
| Payment of bond issuance fees | - | - | (244,504) | (244,504) |
| Proceeds from sale of fixed assets | 27,328 | - | - | 27,328 |
| Total other financing uses | (1,013,718) | - | (2,283,954) | (3,297,672) |
| Net Change in Fund Balances | (218,877) | (378,023) | (408,672) | (1,005,572) |
| Fund Balances - Beginning of year | 15,012,804 | 3,779,196 | 4,470,870 | 23,262,870 |
| Fund Balances - End of year | <u>\$ 14,793,927</u> | <u>\$ 3,401,173</u> | <u>\$ 4,062,198</u> | <u>\$ 22,257,298</u> |

The Notes to Financial Statements are an
Integral Part of this Statement.

Huron Valley Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (1,005,572)

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

| | | |
|--|------------------|-------------|
| Depreciation expense | \$ (11,118,212) | |
| Capitalized capital outlay and other fixed asset additions | <u>4,677,351</u> | (6,440,861) |

Proceeds received from the issuance of bonds are
recorded as revenue in the governmental funds, but not
in the statement of activities (21,195,000)

Payments to the bond escrow agent related to the
bond re-funding are recorded as expenditures in the
governmental statements, but not in the statement
of activities 24,580,000

Accrued interest is recorded in the statement of activities
when incurred; it is not reported in governmental
funds until paid 125,874

Repayment of bond principal is an expenditure in the
governmental funds, but not in the statement of activities
(where it reduces long-term debt) 8,315,561

Deferred interest charges are reported as expenditures in the
funds when incurred and amortized in the statement of
activities over the term of the bonds 337,473

Compensated absences, estimated self-insured liability
claims, and interest on capital appreciation bonds are
recorded when earned or incurred in the statement of
activities. In the current year, more was paid out than
earned or incurred 2,193,323

Underwriter's premium amortized in the statement
of activities (553,874)

Internal Service Fund activity (94,058)

Change in Net Assets of Governmental Activities \$ 6,262,866

Huron Valley Schools

Proprietary Fund - Internal Service Fund Statement of Net Assets (Deficit) June 30, 2008

Assets

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 36,456 |
| Accounts receivable | 376 |
| Deposits | 73,000 |
| Due from other funds | <u>7,059</u> |

Total assets 116,891

Liabilities

| | |
|--------------------------|----------------|
| Accounts payable | 5,889 |
| Estimated claims payable | <u>133,482</u> |

Total liabilities 139,371

Net Assets (Deficit) - Unrestricted **\$ (22,480)**

Huron Valley Schools

Proprietary Fund - Internal Service Fund Statement of Revenue, Expenses, and Changes in Fund Net Assets (Deficit) Year Ended June 30, 2008

| | |
|--|---------------------------|
| Operating Revenue - Charges for services | \$ 1,347,018 |
| Operating Expenses | |
| Claims | 1,206,037 |
| Administrative fees | <u>235,039</u> |
| Total operating expenses | <u>1,441,076</u> |
| Operating Loss | (94,058) |
| Net Assets - Beginning of year | <u>71,578</u> |
| Net Assets (Deficit) - End of year | <u><u>\$ (22,480)</u></u> |

Huron Valley Schools

Proprietary Fund - Internal Service Fund Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

| | |
|----------------------|------------------|
| Charges for services | \$ 1,346,642 |
| Claims paid | (1,079,614) |
| Administrative fees | <u>(258,844)</u> |

Net cash provided by operating activities 8,184

Net Increase in Cash and Cash Equivalents 8,184

Cash and Cash Equivalents - Beginning of year 28,272

Cash and Cash Equivalents - End of year **\$ 36,456**

Reconciliation of operating loss to net cash from operating activities:

| | |
|--|------------------|
| Operating loss | \$ (94,058) |
| Adjustments to reconcile operating loss to net cash from operating activities - Changes in assets and liabilities: | |
| Accounts receivable | (376) |
| Due from other funds | 237,536 |
| Accounts payable | (23,805) |
| Claims payable | <u>(111,113)</u> |

Net cash provided by operating activities **\$ 8,184**

Huron Valley Schools

Fiduciary Fund Statement of Fiduciary Assets and Liabilities June 30, 2008

| | Student Activities Agency Fund |
|-------------------------------|--------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 467,427 |
| Accounts receivable | 811 |
| Due from other funds (Note 6) | <u>975,707</u> |
| Total assets | <u>\$ 1,443,945</u> |
| Liabilities | |
| Accounts payable | \$ 159,320 |
| Due to other funds (Note 6) | 1,098 |
| Due to student groups | <u>1,283,527</u> |
| Total liabilities | <u>\$ 1,443,945</u> |

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Huron Valley Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the School District's policy is to first apply restricted resources.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary fund and fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The only proprietary fund maintained is an Internal Service Fund that is used to account for the financing of risk management services provided to other funds on a cost reimbursement basis. The Internal Service Fund maintained by the School District includes transactions related to the School District's risk management programs for health, dental, vision, and workers' compensation claims. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

2001 Capital Projects Fund - The 2001 Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of resources specifically designated for site renovations, upgrading technology district-wide, acquiring new equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services, Athletics, Community Services, and Bookstore Funds.

Debt Service Funds - Debt Service Funds are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the bond issues.

Capital Projects Sinking Fund - The Capital Projects Sinking Fund is used to record property tax revenues and the disbursement for costs related to capital improvements throughout the School District.

Internal Service Fund - The Internal Service Fund accounts for risk management services provided to other departments of the School District on a cost-reimbursement basis.

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for 100 percent of the taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Services Fund is recorded as expenditures when received; any remaining at year end is not included in the ending inventory balance.

Restricted Assets - The unspent bond proceeds and related interest of the 2001 Capital Projects Funds require amounts to be set aside for construction. In addition, monies received by the Sinking Fund are required to be spent on capital improvements throughout the School District. These amounts have been classified as restricted assets.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------------------|-------------|
| Buildings and building improvements | 20-50 years |
| Buses and other vehicles | 8 years |
| Furniture and equipment | 5-20 years |

Compensated Absences - Vacation, Sick Leave, and Early Termination Benefits - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation, sick leave benefits, severance pay, early retirement incentives, and other termination benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

A liability for early termination benefits is reported in the district-wide statements. The discounted present value of the expected future benefit payments using a discount factor of 4 percent approximates the actual liability at June 30, 2008. The remaining early termination benefit consists of early retirement incentive cash payments provided to two employees over a one-year period. The cost of the obligation is reported in long-term debt.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Note 1 - Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent management plans for future operations.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements. Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District did not have significant budget amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have an excess of expenditures over budget.

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Fund Deficits - The School District has accumulated fund balance deficits in the Athletics and Community Services Funds of \$23,730 and \$136,474, respectively.

Capital Projects Fund Compliance - The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

The Sinking Fund Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated three banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$5,565,591 had \$5,371,386 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not hold any uninsured and unregistered investment securities.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools; and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the maturities of investments and the credit quality ratings of debt securities are as follows:

| <u>Investment</u> | <u>Fair Value</u> | <u>Maturities</u> | <u>Rating</u> | <u>Rating Organization</u> |
|-----------------------------------|-------------------|-------------------|---------------|--------------------------------|
| Municipal Investment Fund Plus | \$16,725,000 | Varies | Not rated | Not rated |

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and non-major and other funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Nonmajor and Other Funds | Internal Service Fund | Total |
|---|----------------------|-----------------------------|--------------------------|----------------------|
| Receivables: | | | | |
| Accounts | \$ 445,026 | \$ 500 | \$ 376 | \$ 445,902 |
| Intergovernmental | 14,397,593 | - | - | 14,397,593 |
| Total receivables | 14,842,619 | 500 | 376 | 14,843,495 |
| Less allowance for uncollectible amounts | - | - | - | - |
| Net receivables | <u>\$ 14,842,619</u> | <u>\$ 500</u> | <u>\$ 376</u> | <u>\$ 14,843,495</u> |

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue was as follows:

| | Unavailable | Unearned |
|--|-------------|---------------------|
| Grant, categorical aid, and tuition payments received prior to meeting all eligibility requirements | <u>\$ -</u> | <u>\$ 1,276,080</u> |

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

| | Balance July 1, 2007 | Reclassifications | Additions | Disposals | Balance June 30, 2008 |
|--|-------------------------|-------------------|----------------|-----------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 3,857,231 | \$ - | \$ - | \$ - | \$ 3,857,231 |
| Construction in progress | 49,778 | (49,778) | 109,546 | - | 109,546 |
| Total capital assets not being depreciated | 3,907,009 | (49,778) | 109,546 | - | 3,966,777 |
| Capital assets being depreciated: | | | | | |
| Building and building improvements | 249,906,034 | - | 2,703,656 | - | 252,609,690 |
| Buses and other vehicles | 6,554,257 | - | 780,765 | 1,647,000 | 5,688,022 |
| Furniture and equipment | 50,626,583 | - | 1,133,162 | - | 51,759,745 |
| Total capital assets being depreciated | 307,086,874 | - | 4,617,583 | 1,647,000 | 310,057,457 |
| Total capital assets | 310,993,883 | (49,778) | 4,727,129 | 1,647,000 | 314,024,234 |
| Accumulated depreciation: | | | | | |
| Building and building improvements | 58,524,454 | - | 6,749,099 | - | 65,273,553 |
| Buses and other vehicles | 5,045,466 | - | 431,265 | 1,647,000 | 3,829,731 |
| Furniture and equipment | 29,964,461 | - | 3,937,848 | - | 33,902,309 |
| Subtotal | 93,534,381 | - | 11,118,212 | 1,647,000 | 103,005,593 |
| Net capital assets being depreciated | 213,552,493 | - | (6,500,629) | - | 207,051,864 |
| Net governmental capital assets | \$ 217,459,502 | \$ (49,778) | \$ (6,391,083) | \$ - | \$ 211,018,641 |

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Construction Commitments - The School District has active construction projects at year end. The projects include the 2001 bond issue. At year end, the School District's commitments with contractors are as follows:

| | Spent to Date | Remaining Commitment |
|-----------------|----------------|-------------------------|
| 2001 Bond issue | \$ 109,596,794 | \$ 2,257,895 |

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Fund Due From (Payable) | Fund Due To (Receivable) | | | | | Total |
|-----------------------------|--------------------------|----------------------------|-----------------------------|-----------------------|-----------------------|---------------------|
| | General Fund | 2001 Capital Projects Fund | Nonmajor Governmental Funds | Internal Service Fund | Student Activity Fund | |
| General Fund | \$ - | \$ 429,815 | \$ 1,240,400 | \$ 7,059 | \$ 974,609 | \$ 2,651,883 |
| 2001 Capital Projects Fund | - | - | 47,521 | - | - | 47,521 |
| Nonmajor governmental funds | 38,879 | - | 25,578 | - | - | 64,457 |
| Student Activity Fund | - | - | - | - | 1,098 | 1,098 |
| Total | <u>\$ 38,879</u> | <u>\$ 429,815</u> | <u>\$ 1,313,499</u> | <u>\$ 7,059</u> | <u>\$ 975,707</u> | <u>\$ 2,764,959</u> |

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund investment accounts.

Interfund Transfers

| | Transfers Out | | Total |
|-----------------------------|--------------------|-----------------------------|--------------------|
| | General Fund | Nonmajor Governmental Funds | |
| Transfers in: | | | |
| General Fund | \$ - | \$ 84,016 | \$ 84,016 |
| Nonmajor governmental funds | <u>1,125,062</u> | <u>2,101,775</u> | <u>3,226,837</u> |
| Total | <u>\$1,125,062</u> | <u>\$ 2,185,791</u> | <u>\$3,310,853</u> |

Transfers from the General Fund to the nonmajor governmental funds include transfers of \$281,869 and \$843,193 to the Community Services and Athletics Funds, respectively, to cover current operating deficits. In addition, transfers from the nonmajor governmental funds to the General Fund represent charges for current overhead costs.

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|----------------------|---------------|-----------------|-------------------|------------------------|
| Governmental Activities | | | | | |
| Bonds | \$ 153,368,124 | \$ 21,195,000 | \$ (32,895,561) | \$ 141,667,563 | \$ 11,020,356 |
| Deferred interest paid to escrow agent | (2,513,723) | (547,425) | 209,952 | (2,851,196) | (243,130) |
| Issuance premiums | 3,583,897 | 851,929 | (298,055) | 4,137,771 | 349,686 |
| Total bonds payable | 154,438,298 | 21,499,504 | (32,983,664) | 142,954,138 | 11,126,912 |
| Other obligations | 6,309,532 | 37,617 | (2,230,940) | 4,116,209 | 1,112,479 |
| Total governmental activities | \$ 160,747,830 | \$ 21,537,121 | \$ (35,214,604) | \$ 147,070,347 | \$ 12,239,391 |

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

| Years Ending June 30 | Governmental Activities | | |
|-------------------------|-------------------------|----------------|----------------|
| | Principal | Interest | Total |
| 2009 | \$ 11,020,356 | \$ 9,471,828 | \$ 20,492,184 |
| 2010 | 7,534,120 | 9,361,224 | 16,895,344 |
| 2011 | 7,434,861 | 9,459,578 | 16,894,439 |
| 2012 | 7,352,624 | 9,541,589 | 16,894,213 |
| 2013 | 9,156,577 | 7,739,217 | 16,895,794 |
| 2014-2018 | 45,252,288 | 39,221,856 | 84,474,144 |
| 2019-2023 | 32,771,737 | 20,935,751 | 53,707,488 |
| 2024-2028 | 21,145,000 | 2,301,900 | 23,446,900 |
| Total | \$ 141,667,563 | \$ 108,032,943 | \$ 249,700,506 |

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Governmental Activities

General obligation bonds consist of the following:

| | |
|--|-----------------------|
| \$29,730,107 1993 Refunding Capital Appreciation Bonds due in annual installments of \$1,076,577 to \$1,865,356 through May 1, 2020; interest at 6.40% to 6.65% | \$ 16,767,563 |
| \$103,900,000 of 2001 Building and Site Serial Bonds due in annual installments of \$3,150,000 to \$3,500,000 through May 1, 2012 and annual installments of \$755,000 to \$5,250,000 from May 1, 2021 through May 1, 2026; interest at 4.00% to 5.50% | 40,030,000 |
| \$19,505,000 of 2003 Refunding Serial Bonds due in annual installments of \$2,355,000 to \$2,520,000 from May 1, 2013 through May 1, 2020; interest at 5.25% to 5.375% | 19,505,000 |
| \$34,630,000 of 2005 Refunding Serial Bonds due in annual installments of \$125,000 to \$4,855,000 through May 1, 2020; interest at 3.00% to 5.00% | 34,255,000 |
| \$10,000,000 of 2006 Refunding Serial Bonds due in two installments of \$4,600,000, and \$5,315,000 on May 1, 2026 and 2027, respectively; interest at 4.00% | 9,915,000 |
| \$21,195,000 of 2008 Refunding Serial Bonds due in annual installments of \$460,000 to \$5,880,000 through May 1, 2019; interest at 3.00% to 4.25% | 21,195,000 |
| Total bonded debt | <u>\$ 141,667,563</u> |

Other governmental activities long-term obligations include the following:

| | |
|---|---------------------|
| Employee-compensated absences | \$ 1,450,852 |
| Early retirement incentive obligation | 579,032 |
| Accreted interest on capital appreciation bonds | 1,572,165 |
| Self-insurance and other risk liabilities | <u>514,160</u> |
| Total | <u>\$ 4,116,209</u> |

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Advance and Current Refundings - During the year, the School District issued \$21,195,000 in general obligation bonds with an average interest rate of 3.9 percent. The proceeds of these bonds were used to advance refund \$24,580,000 of outstanding 1998 Building and Site Serial Bonds with an average interest rate of 4.9 percent. The net proceeds of \$21,802,425, along with existing funds of \$3,325,000 from its Debt Service Fund (after payment of \$244,504 in underwriting fees, insurance, and other issuance costs), were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for two future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding decreased total debt service payments by \$3,324,312, which represents an economic gain of approximately \$1,188,000.

In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2008, approximately \$115,300,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

| | Governmental Activities |
|--|----------------------------|
| Unspent bond proceeds, sinking fund millage, and related interest: | |
| 2001 Capital Projects Fund | \$ 3,062,490 |
| Sinking Fund | <u>1,979,865</u> |
| Total restricted assets | <u>\$ 5,042,355</u> |

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for property loss, general liability, and health benefit claims for certain employees. The School District is self-insured for dental, vision, and workers' compensation claims.

Beginning January 1, 2006, the School District became self-insured for health benefits for certain employee groups. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

During the 2006-2007 fiscal year, claims associated with the employee groups included in the self-insurance health benefits increased sharply. The School District decided to move those groups into commercial health benefit companies. While the groups' self-funded benefits ended during the 2006-2007 fiscal year, the "run out" period of claims extended three months past the end date for the self-insured health benefits. The last group's "run out" period ended August 1, 2007. Amounts for claims until that date have been included on the School District's estimated liability below for 2007.

The School District estimates the liability for health, dental, vision, and workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates for health (recorded in 2007 only), dental, and vision are recorded in the Internal Service Fund, which is part of the government-wide financial statements. The estimated liability for workers' compensation claims is included in the government-wide financial statements only. Changes in the estimated liability for the past two fiscal years were as follows:

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|---------------------|
| Estimated liability - Beginning of year | \$ 1,088,084 | \$ 1,232,577 |
| Estimated claims incurred - Including changes in estimates | 822,143 | 3,903,863 |
| Claim payments | <u>1,357,522</u> | <u>4,048,356</u> |
| Estimated liability - End of year | <u>\$ 552,705</u> | <u>\$ 1,088,084</u> |

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007, and 2006 were \$5,609,847, \$6,099,980, and \$5,262,282, respectively.

Postemployment Benefits - Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverage through MPERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2008, 2007, and 2006 were \$3,535,296, \$3,668,982, and \$3,636,968, respectively.

Huron Valley Schools

Notes to Financial Statements June 30, 2008

Note 11 - Contingent Liabilities

The School District is involved with several claims related to contractors' work with completed and on-going construction activities. While the contractors are seeking settlements of up to \$4.7 million, the School District believes that the additional amounts are not due but were part of the original contract price. As a resolution is not clear at this time, no liability has been recorded for these amounts.

Required Supplementary Information

Huron Valley Schools

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2008

| | Original Budget | Final Budget | Actual | Over (Under) Final Budget |
|---------------------------------------|--------------------|-----------------|---------------|------------------------------|
| Revenue | | | | |
| Local sources | \$ 2,340,253 | \$ 13,400,624 | \$ 13,431,440 | \$ 30,816 |
| State sources | 80,743,221 | 68,834,023 | 68,518,182 | (315,841) |
| Federal sources | 25,000 | 25,000 | 14,229 | (10,771) |
| Interdistrict sources | 7,590,653 | 7,673,807 | 8,148,858 | 475,051 |
| Total revenue | 90,699,127 | 89,933,454 | 90,112,709 | 179,255 |
| Expenditures | | | | |
| Instruction: | | | | |
| Basic programs | 40,855,323 | 41,692,408 | 41,401,506 | (290,902) |
| Added needs | 6,040,461 | 6,001,581 | 5,912,076 | (89,505) |
| Adult and continuing education | 137,916 | 145,105 | 99,749 | (45,356) |
| Capital outlay | 67,700 | 120,052 | 128,811 | 8,759 |
| Support services: | | | | |
| Pupil | 7,876,577 | 7,331,573 | 7,170,465 | (161,108) |
| Instructional staff | 3,520,102 | 3,589,006 | 3,229,209 | (359,797) |
| General administration | 814,393 | 813,907 | 936,062 | 122,155 |
| School administration | 5,275,827 | 5,609,620 | 5,784,063 | 174,443 |
| Business services | 1,550,311 | 1,449,823 | 1,352,113 | (97,710) |
| Operations | 10,275,000 | 11,312,036 | 11,147,188 | (164,848) |
| Transportation and maintenance | 7,627,082 | 6,598,185 | 6,616,116 | 17,931 |
| Central | 2,472,782 | 2,404,209 | 2,599,694 | 195,485 |
| Capital outlay | 197,379 | 1,018,686 | 1,117,207 | 98,521 |
| Community services: | | | | |
| Community services | 1,252,138 | 230,427 | 187,492 | (42,935) |
| Capital outlay | 3,916 | 3,916 | - | (3,916) |
| Facilities - School improvement | 4,476 | 4,476 | - | (4,476) |
| Interdistrict tuition | 2,004,000 | 1,915,351 | 2,106,183 | 190,832 |
| Subtotal expenditures | 89,975,383 | 90,240,361 | 89,787,934 | (452,427) |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | 55,683 | 58,807 | 84,016 | 25,209 |
| Operating transfers out | (742,224) | (1,103,097) | (1,012,427) | 90,670 |
| Proceeds from sale of fixed assets | 5,000 | 5,000 | 27,328 | 22,328 |
| Total other financing uses | (681,541) | (1,039,290) | (901,083) | 138,207 |
| Total expenditures | (90,656,924) | (91,279,651) | (90,689,017) | 590,634 |
| Net Change in Fund Balance | 42,203 | (1,346,197) | (576,308) | 769,889 |
| Fund Balance - July 1, 2007 | 14,821,642 | 14,821,642 | 14,821,642 | - |
| Fund Balance - June 30, 2008 | \$ 14,863,845 | \$ 13,475,445 | \$ 14,245,334 | \$ 769,889 |

Other Supplementary Information

Huron Valley Schools

Other Supplementary Information Combining Statement of Revenue and Expenditures General Fund June 30, 2008

| | General Fund | IAW * | Grants | Combined General Fund |
|---|------------------|----------------|------------|--------------------------|
| Revenue | | | | |
| Local sources | \$ 13,431,440 | \$ 26,210 | \$ 24,316 | \$ 13,481,966 |
| State sources | 68,518,182 | - | 804,354 | 69,322,536 |
| Federal sources | 14,229 | - | 4,002,490 | 4,016,719 |
| Interdistrict sources | 8,148,858 | 1,049,040 | 72,951 | 9,270,849 |
| Total revenue | 90,112,709 | 1,075,250 | 4,904,111 | 96,092,070 |
| Expenditures | | | | |
| Instruction: | | | | |
| Basic programs | 41,401,506 | 451,360 | 296,286 | 42,149,152 |
| Added needs | 5,912,076 | - | 2,789,044 | 8,701,120 |
| Adult and continuing education | 99,749 | - | 15,009 | 114,758 |
| Capital outlay | 128,811 | 49,993 | - | 178,804 |
| Total instruction | 47,542,142 | 501,353 | 3,100,339 | 51,143,834 |
| Support services: | | | | |
| Pupil | 7,170,465 | 84,862 | 1,056,081 | 8,311,408 |
| Instructional staff | 3,229,209 | 3,093 | 442,311 | 3,674,613 |
| General administration | 936,062 | - | 132,186 | 1,068,248 |
| School administration | 5,784,063 | 120,784 | - | 5,904,847 |
| Business services | 1,352,113 | - | - | 1,352,113 |
| Operations/Maintenance | 11,147,188 | - | - | 11,147,188 |
| Transportation | 6,616,116 | 772 | 1,934 | 6,618,822 |
| Central | 2,599,694 | 1,344 | 2,954 | 2,603,992 |
| Capital outlay | 1,117,207 | 5,608 | 49,127 | 1,171,942 |
| Total support services | 39,952,117 | 216,463 | 1,684,593 | 41,853,173 |
| Community services | 187,492 | - | 6,547 | 194,039 |
| Interdistrict tuition | 2,106,183 | - | - | 2,106,183 |
| Total expenditures | 89,787,934 | 717,816 | 4,791,479 | 95,297,229 |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | 84,016 | - | - | 84,016 |
| Operating transfers out | (1,012,427) | - | (112,635) | (1,125,062) |
| Proceeds from sale of fixed assets | 27,328 | - | - | 27,328 |
| Total other financing uses | (901,083) | - | (112,635) | (1,013,718) |
| Total expenditures and other financing uses | 90,689,017 | 717,816 | 4,904,114 | 96,310,947 |
| Excess of Revenues Over (Under) Expenditures | (576,308) | 357,434 | (3) | (218,877) |

* IAW = International Academy West

Huron Valley Schools

| | Special Revenue Funds | | | | Debt Service Funds | |
|--|-----------------------|------------------|--------------------|------------------|--------------------|-------------|
| | Food Services | Athletics | Community Services | Bookstore | 1993 | 1996 |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 500 | \$ - | \$ 3,676 | \$ - | \$ 323,679 | \$ - |
| Receivables - Net | 500 | - | - | - | - | - |
| Due from other funds | 68,885 | 56,942 | 203,843 | 49,169 | 112,007 | - |
| Inventories | 174,924 | - | - | - | - | - |
| Restricted assets | - | - | - | - | - | - |
| Total assets | \$ 244,809 | \$ 56,942 | \$ 207,519 | \$ 49,169 | \$ 435,686 | \$ - |
| Liabilities and Fund Balances (Deficits) | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 3,371 | \$ 64,031 | \$ 110,927 | \$ 1,657 | \$ - | \$ - |
| Accrued payroll and other liabilities | 35,338 | 16,641 | 80,921 | - | - | - |
| Construction contracts payable | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - |
| Deferred revenue | 22,029 | - | 152,145 | - | - | - |
| Total liabilities | 60,738 | 80,672 | 343,993 | 1,657 | - | - |
| Fund Balances (Deficits) | | | | | | |
| Reserved: | | | | | | |
| Inventories | 174,924 | - | - | - | - | - |
| Capital projects | - | - | - | - | - | - |
| Debt service | - | - | - | - | 435,686 | - |
| Unreserved - Undesignated, reported in Special Revenue Funds | 9,147 | (23,730) | (136,474) | 47,512 | - | - |
| Total fund balances (deficits) | 184,071 | (23,730) | (136,474) | 47,512 | 435,686 | - |
| Total liabilities and fund balances (deficits) | \$ 244,809 | \$ 56,942 | \$ 207,519 | \$ 49,169 | \$ 435,686 | \$ - |

Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

| Debt Service Funds | | | | | Capital Projects Fund | |
|--------------------|-------------------|-------------------|-------------------|-------------------|--------------------------|---------------------|
| 1998 | 2001 | 2003 | 2005 | 2006 | Sinking Fund | Total |
| \$ 67,957 | \$ 642,748 | \$ 150,946 | \$ 266,474 | \$ 114,767 | \$ - | \$ 1,570,747 |
| - | - | - | - | - | - | 500 |
| 169,094 | 139,831 | 117,860 | 38,436 | 17,810 | 339,622 | 1,313,499 |
| - | - | - | - | - | - | 174,924 |
| - | - | - | - | - | 1,979,865 | 1,979,865 |
| <u>\$ 237,051</u> | <u>\$ 782,579</u> | <u>\$ 268,806</u> | <u>\$ 304,910</u> | <u>\$ 132,577</u> | <u>\$ 2,319,487</u> | <u>\$ 5,039,535</u> |
| | | | | | | |
| \$ 3,500 | \$ - | \$ - | \$ - | \$ - | \$ 414,904 | \$ 598,390 |
| - | - | - | - | - | - | 132,900 |
| - | - | - | - | - | 7,416 | 7,416 |
| 64,457 | - | - | - | - | - | 64,457 |
| - | - | - | - | - | - | 174,174 |
| 67,957 | - | - | - | - | 422,320 | 977,337 |
| - | - | - | - | - | - | 174,924 |
| - | - | - | - | - | 1,897,167 | 1,897,167 |
| 169,094 | 782,579 | 268,806 | 304,910 | 132,577 | - | 2,093,652 |
| - | - | - | - | - | - | (103,545) |
| <u>169,094</u> | <u>782,579</u> | <u>268,806</u> | <u>304,910</u> | <u>132,577</u> | <u>1,897,167</u> | <u>4,062,198</u> |
| <u>\$ 237,051</u> | <u>\$ 782,579</u> | <u>\$ 268,806</u> | <u>\$ 304,910</u> | <u>\$ 132,577</u> | <u>\$ 2,319,487</u> | <u>\$ 5,039,535</u> |

Huron Valley Schools

| | Special Revenue Funds | | | | Debt Service | |
|--|-----------------------|--------------------|---------------------|------------------|-------------------|------------------|
| | Food Services | Athletics | Community Services | Bookstore | 1993 | 1996 |
| Revenue | | | | | | |
| Sales | \$ 1,696,917 | \$ - | \$ - | \$ 75,657 | \$ - | \$ - |
| Admissions, activity tickets, and pay-to-participate | - | 436,057 | - | - | - | - |
| Tuition | - | - | 2,140,171 | - | - | - |
| State sources | 166,515 | - | - | - | - | - |
| Federal sources | 952,427 | - | - | - | - | - |
| Current property tax levy | - | - | - | - | 5,385,145 | 1,835 |
| Investment income | - | - | - | - | 136,620 | 22,905 |
| Total revenue | 2,815,859 | 436,057 | 2,140,171 | 75,657 | 5,521,765 | 24,740 |
| Expenditures | | | | | | |
| Salaries: | | | | | | |
| Administration | - | 202,661 | - | - | - | - |
| Food services | 973,205 | - | - | - | - | - |
| Instructors, coaches, other | - | 392,992 | 1,023,766 | - | - | - |
| Employee benefits | 424,184 | 202,289 | 323,458 | - | - | - |
| Purchased services | 22,035 | 328,636 | 1,040,306 | - | - | - |
| Supplies and materials: | | | | | | |
| Food | 1,093,739 | - | - | - | - | - |
| Other | 245,346 | 96,810 | 100,197 | - | - | - |
| Other | - | - | 18,711 | 69,417 | - | - |
| Debt service: | | | | | | |
| Bond redemption | - | - | - | - | 1,885,561 | - |
| School bond loan fund payment | - | - | - | - | - | - |
| Interest | - | - | - | - | 3,199,439 | - |
| Other | - | - | - | - | 525 | - |
| Capital outlay | 10,558 | - | 13,217 | - | - | - |
| Total expenditures | 2,769,067 | 1,223,388 | 2,519,655 | 69,417 | 5,085,525 | - |
| Excess of Revenue Over (Under) Expenditures | 46,792 | (787,331) | (379,484) | 6,240 | 436,240 | 24,740 |
| Other Financing Sources (Uses) | | | | | | |
| Proceeds from debt issuance | - | - | - | - | - | - |
| Payment to escrow agent | - | - | - | - | - | - |
| Payment of bond issuance fees | - | - | - | - | - | - |
| Transfers in | - | 843,193 | 281,869 | - | - | - |
| Transfers out | - | (55,862) | (28,154) | - | (297,880) | (571,096) |
| Total other financing sources (uses) | - | 787,331 | 253,715 | - | (297,880) | (571,096) |
| Net Change in Fund Balances (Deficits) | 46,792 | - | (125,769) | 6,240 | 138,360 | (546,356) |
| Fund Balances (Deficits) - Beginning of year | 137,279 | (23,730) | (10,705) | 41,272 | 297,326 | 546,356 |
| Fund Balances (Deficits) - End of year | \$ 184,071 | \$ (23,730) | \$ (136,474) | \$ 47,512 | \$ 435,686 | \$ - |

Other Supplementary Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficits)
Nonmajor Governmental Funds
Year Ended June 30, 2008

| Funds | Debt Service Funds | | | | | Capital Projects Fund | |
|--------------|--------------------|------------|------------|------------|--------------|-----------------------|--|
| 1998 | 2001 | 2003 | 2005 | 2006 | Sinking Fund | Total | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,772,574 | |
| - | - | - | - | - | - | 436,057 | |
| - | - | - | - | - | - | 2,140,171 | |
| - | - | - | - | - | - | 166,515 | |
| - | - | - | - | - | - | 952,427 | |
| 4,824,915 | 6,363,987 | 1,137,732 | 2,021,051 | 532,407 | 2,754,200 | 23,021,272 | |
| 102,434 | 137,209 | 24,140 | 45,834 | 11,126 | 112,408 | 592,676 | |
| 4,927,349 | 6,501,196 | 1,161,872 | 2,066,885 | 543,533 | 2,866,608 | 29,081,692 | |
| - | - | - | - | - | - | 202,661 | |
| - | - | - | - | - | - | 973,205 | |
| - | - | - | - | - | - | 1,416,758 | |
| - | - | - | - | - | - | 949,931 | |
| - | - | - | - | - | - | 1,390,977 | |
| - | - | - | - | - | - | 1,093,739 | |
| - | - | - | - | - | - | 442,353 | |
| - | - | - | - | - | - | 88,128 | |
| 3,070,000 | 3,150,000 | - | 125,000 | 85,000 | - | 8,315,561 | |
| - | - | - | - | - | - | - | |
| 717,627 | 2,124,004 | 1,030,445 | 1,704,722 | 199,696 | - | 8,975,933 | |
| 300 | 250 | 251 | 226 | 225 | - | 1,777 | |
| - | - | - | - | - | 3,331,612 | 3,355,387 | |
| 3,787,927 | 5,274,254 | 1,030,696 | 1,829,948 | 284,921 | 3,331,612 | 27,206,410 | |
| 1,139,422 | 1,226,942 | 131,176 | 236,937 | 258,612 | (465,004) | 1,875,282 | |
| 22,046,929 | - | - | - | - | - | 22,046,929 | |
| (25,127,425) | - | - | - | - | - | (25,127,425) | |
| (244,504) | - | - | - | - | - | (244,504) | |
| 2,101,775 | - | - | - | - | - | 3,226,837 | |
| - | (661,871) | (160,896) | (283,997) | (126,035) | - | (2,185,791) | |
| (1,223,225) | (661,871) | (160,896) | (283,997) | (126,035) | - | (2,283,954) | |
| (83,803) | 565,071 | (29,720) | (47,060) | 132,577 | (465,004) | (408,672) | |
| 252,897 | 217,508 | 298,526 | 351,970 | - | 2,362,171 | 4,470,870 | |
| \$ 169,094 | \$ 782,579 | \$ 268,806 | \$ 304,910 | \$ 132,577 | \$ 1,897,167 | \$ 4,062,198 | |

Huron Valley Schools

Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2008

| | 1993 Refunding Bonds | 2001 Building and Site Bonds | 2003 Refunding Bonds | 2005 Refunding Bonds | 2006 Refunding Bonds | 2008 Refunding Bonds |
|------------------------|-------------------------|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| June 30 | Principal | Principal | Principal | Principal | Principal | Principal |
| 2009 | \$ 1,865,356 | \$ 3,150,000 | \$ - | \$ 125,000 | \$ - | \$ 5,880,000 |
| 2010 | 1,844,120 | 3,225,000 | - | 130,000 | - | 2,335,000 |
| 2011 | 1,819,861 | 3,350,000 | - | 130,000 | - | 2,135,000 |
| 2012 | 1,792,624 | 3,500,000 | - | 130,000 | - | 1,930,000 |
| 2013 | 1,076,577 | - | 2,520,000 | 3,650,000 | - | 1,910,000 |
| 2014 | 1,109,928 | - | 2,495,000 | 3,810,000 | - | 1,745,000 |
| 2015 | 1,148,772 | - | 2,475,000 | 3,965,000 | - | 1,555,000 |
| 2016 | 1,182,742 | - | 2,450,000 | 4,115,000 | - | 1,340,000 |
| 2017 | 1,197,933 | - | 2,430,000 | 4,265,000 | - | 1,095,000 |
| 2018 | 1,222,913 | - | 2,400,000 | 4,440,000 | - | 810,000 |
| 2019 | 1,244,354 | - | 2,380,000 | 4,640,000 | - | 460,000 |
| 2020 | 1,262,383 | - | 2,355,000 | 4,855,000 | - | - |
| 2021 | - | 5,125,000 | - | - | - | - |
| 2022 | - | 5,225,000 | - | - | - | - |
| 2023 | - | 5,225,000 | - | - | - | - |
| 2024 | - | 5,225,000 | - | - | - | - |
| 2025 | - | 5,250,000 | - | - | - | - |
| 2026 | - | 755,000 | - | - | 4,600,000 | - |
| 2027 | - | - | - | - | 5,315,000 | - |
| Total | \$ 16,767,563 | \$ 40,030,000 | \$ 19,505,000 | \$ 34,255,000 | \$ 9,915,000 | \$ 21,195,000 |
| Principal payments due | May 1 | May 1 | May 1 | May 1 | May 1 | May 1 |
| Interest payments due | May 1 | May 1 and November 1 | May 1 and November 1 | May 1 and November 1 | May 1 and November 1 | May 1 and November 1 |
| Interest rate | 6.40% to 6.65% | 4.00% to 5.50% | 5.25% to 5.375% | 3.00% to 5.00% | 4.00% | 3.00% to 4.25% |
| Original issue | \$ 29,730,107 | \$ 103,900,000 | \$ 19,505,000 | \$ 34,630,000 | \$ 10,000,000 | \$ 21,195,000 |

Huron Valley Schools

**Federal Awards
Supplemental Information
June 30, 2008**

Huron Valley Schools

Contents

| | |
|---|-------|
| Independent Auditor's Report | I |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 2-3 |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 | 4-5 |
| Schedule of Expenditures of Federal Awards | 6-11 |
| Notes to Schedule of Expenditures of Federal Awards | 12 |
| Schedule of Findings and Questioned Costs | 13-15 |



Plante & Moran, PLLC
Suite 500
2601 Cambridge Court
Auburn Hills, MI 48326
Tel: 248.375.7100
Fax: 248.375.7101
planteandmoran.com

Independent Auditor's Report

To the Board of Education
Huron Valley Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Valley Schools as of and for the year ended June 30, 2008, which collectively comprise Huron Valley Schools' basic financial statements, and have issued our report thereon dated October 8, 2008. Those basic financial statements are the responsibility of the management of Huron Valley Schools. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Huron Valley Schools taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 8, 2008

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Education
Huron Valley Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Huron Valley Schools as of and for the year ended June 30, 2008, which collectively comprise Huron Valley Schools' basic financial statements, and have issued our report thereon dated October 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Huron Valley Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Huron Valley Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Huron Valley Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

To the Board of Education
Huron Valley Schools

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Huron Valley Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to the management of Huron Valley Schools in a separate letter dated October 8, 2008.

Huron Valley Schools' response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management, and federal and pass-through awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 8, 2008

Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Education
Huron Valley Schools

Compliance

We have audited the compliance of Huron Valley Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of Huron Valley Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Huron Valley Schools' management. Our responsibility is to express an opinion on Huron Valley Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Huron Valley Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Huron Valley Schools' compliance with those requirements.

In our opinion, Huron Valley Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

To the Board of Education
Huron Valley Schools

Internal Control Over Compliance

The management of Huron Valley Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Huron Valley Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, and federal and pass-through awarding agencies is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 8, 2008

Huron Valley Schools

| Program Title/Project Number | CFDA Number | Approved Awards Amount | (Memo Only) Prior Years Expenditures |
|---|----------------|------------------------------|--|
| Clusters: | | | |
| Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education: | | | |
| National School Breakfast Program - 2007-2008 | 10.553 | \$ 150,367 | \$ - |
| National School Lunch Program - 2007-2008 | 10.555 | 680,492 | - |
| Total Child Nutrition Cluster | | 830,859 | - |
| Special Education Cluster - U.S. Department of Education: Passed through the Oakland County ISD: | 84.027 | | |
| IDEA: | | | |
| Project number 060450 | | 2,045,717 | 2,045,717 |
| Project number 070450 | | 2,042,974 | 1,894,874 |
| Project number 080450 | | 2,075,466 | - |
| Total IDEA | | 6,164,157 | 3,940,591 |
| Preschool Incentive: | 84.173 | | |
| Project number 070460 | | 91,294 | 86,056 |
| Project number 080460 | | 89,569 | - |
| Total Preschool Incentive | | 180,863 | 86,056 |
| SpEd MiniGrants - Positive Behavior Support Initiative | 84.027A | 350 | - |
| Passed through the Michigan Department of Education - SpEd MiniGrants - Service Provider Self Review | 84.027A | 5,500 | 5,500 |
| Total Special Education Cluster | | 6,350,870 | 4,032,147 |
| Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Oakland ISD - Medicaid Outreach | 93.778 | 14,230 | - |
| Other federal awards: | | | |
| U.S. Department of Education: Smaller Learning Community | 84.215L | 300,000 | 173,204 |
| Passed through the Michigan Department of Education: Title I: | 84.010 | | |
| Project number 071530/0607 regular | | 842,604 | 677,200 |
| Project number 081530/0708 regular | | 1,130,569 | - |
| Total Title I | | 1,973,173 | 677,200 |

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008**

| Accrued Revenue at July 1, 2007 | Adjustments and Transfers | Federal Funds/ Payments In-kind Received | Expenditures | Accrued Revenue at June 30, 2008 |
|---------------------------------------|------------------------------|---|--------------|--|
| \$ - | \$ - | \$ 150,367 | \$ 150,367 | \$ - |
| - | - | 680,492 | 680,492 | - |
| - | - | 830,859 | 830,859 | - |
| 4,309 | - | 4,309 | - | - |
| 793,519 | - | 919,119 | 148,100 | 22,500 |
| - | - | 1,099,816 | 1,995,994 | 896,178 |
| 797,828 | - | 2,023,244 | 2,144,094 | 918,678 |
| 26,902 | - | 28,263 | 5,238 | 3,877 |
| - | - | 50,469 | 85,453 | 34,984 |
| 26,902 | - | 78,732 | 90,691 | 38,861 |
| - | - | 350 | 350 | - |
| 5,500 | - | 5,500 | - | - |
| 830,230 | - | 2,107,826 | 2,235,135 | 957,539 |
| - | - | 6,496 | 14,230 | 7,734 |
| 7,566 | - | 92,958 | 89,297 | 3,905 |
| 252,018 | - | 348,767 | 96,749 | - |
| - | - | 773,956 | 956,567 | 182,611 |
| 252,018 | - | 1,122,723 | 1,053,316 | 182,611 |

Huron Valley Schools

| Program Title/Project Number | CFDA Number | Approved Awards Amount | (Memo Only) Prior Years Expenditures |
|--|----------------|------------------------------|--|
| Other federal awards (Continued): | | | |
| U.S. Department of Education (Continued): | | | |
| Passed through the Michigan Department of Education (Continued): | | | |
| Title V: | 84.298 | | |
| Project number 060250/0506 Title V, Part A Innovative Programs | | \$ 4,377 | \$ 4,377 |
| Project number 080250/0708 Title V, Part A Innovative Programs | | 4,342 | - |
| Total Title V | | 8,719 | 4,377 |
| Safe and Drug-free Schools and Communities: | 84.186 | | |
| Project number 062860/0506 | | 42,753 | 42,753 |
| Project number 072860/0607 | | 32,464 | 24,623 |
| Project number 082860/0708 | | 35,300 | - |
| Total Safe and Drug-free Schools and Communities | | 110,517 | 67,376 |
| Title II: | 84.367 | | |
| Part A - Project number 070520/0607 | | 288,330 | 277,116 |
| Part A - Project number 080520/0708 | | 297,539 | - |
| Total Title II, Part A | | 585,869 | 277,116 |
| Adult Education: | 84.002A | | |
| Project number 071130/710307 | | 26,600 | 26,600 |
| Project number 081130/810307 | | 27,000 | - |
| Total Adult Education | | 53,600 | 26,600 |
| Technology Literacy Challenge: | | | |
| Project number 064290/0607 | 83.318 | 13,811 | 13,644 |
| Project number 084290/0708 | | 18,540 | - |
| Total Technology Literacy Challenge | | 32,351 | 13,644 |
| Total noncluster programs passed through the Michigan Department of Education | | 2,764,229 | 1,066,313 |

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2008

| Accrued Revenue at July 1, 2007 | Adjustments and Transfers | Federal Funds/ Payments In-kind Received | Expenditures | Accrued Revenue at June 30, 2008 |
|---------------------------------------|------------------------------|---|--------------|--|
| \$ 77 | \$ - | \$ 77 | \$ - | \$ - |
| - | - | 1,972 | 3,284 | 1,312 |
| 77 | - | 2,049 | 3,284 | 1,312 |
| 3,591 | - | 3,591 | - | - |
| 5,136 | - | 6,597 | 7,841 | 6,380 |
| - | - | 12,639 | 25,910 | 13,271 |
| 8,727 | - | 22,827 | 33,751 | 19,651 |
| 107,572 | - | 118,786 | 11,214 | - |
| - | - | 193,899 | 259,870 | 65,971 |
| 107,572 | - | 312,685 | 271,084 | 65,971 |
| 8,148 | - | 8,148 | - | - |
| - | - | 13,057 | 19,386 | 6,329 |
| 8,148 | - | 21,205 | 19,386 | 6,329 |
| 6,457 | - | 6,457 | - | - |
| - | - | 10,219 | 10,219 | - |
| 6,457 | - | 16,676 | 10,219 | - |
| 382,999 | - | 1,498,165 | 1,391,040 | 275,874 |

Huron Valley Schools

| Program Title/Project Number | CFDA Number | Approved Awards Amount | (Memo Only) Prior Years Expenditures |
|--|----------------|------------------------------|--|
| Other federal awards (Continued): | | | |
| U.S. Department of Education (Continued): | | | |
| Passed through the Oakland County ISD - Vocational Education | | | |
| Basic Grants to States (Perkins II): | | | |
| Project number 073520/4012-18 | 84.048A | \$ 78,580 | \$ 78,580 |
| Project number 083520/4012-18 | | 89,224 | - |
| Total noncluster programs passed through the Oakland County ISD | | 167,804 | 78,580 |
| Total U.S. Department of Education noncluster programs | | 2,932,033 | 1,144,893 |
| U.S. Department of Agriculture - Passed through the Michigan Department of Education: | | | |
| Food Distribution: | | | |
| Entitlement commodities 2007-2008 | 10.550 | 121,039 | - |
| Bonus commodities 2007-2008 | | 529 | - |
| Total U.S. Department of Education noncluster programs | | 121,568 | - |
| Fresh Fruit Vegetable Program - Project number 06491/06491 | 10.582 | 138,295 | 91,042 |
| Total U.S. Department of Agriculture - Passed through the Michigan Department of Education | | 259,863 | 91,042 |
| U.S. Department of Health and Human Services - Passed through the Oakland Livingston Human Service Agency - Head Start: | | | |
| Project number CDD HS07 012 | 93.600 | 195,876 | 123,760 |
| Project number CDD HS08 012 | | 195,876 | - |
| Total U.S. Department of Health and Human Services noncluster programs | | 391,752 | 123,760 |
| Total federal awards | | <u>\$11,079,607</u> | <u>\$5,565,046</u> |

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2008

| Accrued Revenue at July 1, 2007 | Adjustments and Transfers | Federal Funds/ Payments In-kind Received | Expenditures | Accrued Revenue at June 30, 2008 |
|---------------------------------------|------------------------------|---|---------------------|--|
| \$ 75,542 | \$ - | \$ 75,542 | \$ - | \$ - |
| - | - | 21,223 | 89,224 | 68,001 |
| 75,542 | - | 96,765 | 89,224 | 68,001 |
| 458,541 | - | 1,594,930 | 1,480,264 | 343,875 |
| - | - | 121,039 | 121,039 | - |
| - | - | 529 | 529 | - |
| - | - | 121,568 | 121,568 | - |
| 49,377 | - | 49,377 | - | - |
| 49,377 | - | 170,945 | 121,568 | - |
| 62,687 | - | 134,803 | 72,116 | - |
| - | - | 27,384 | 125,677 | 98,293 |
| 62,687 | - | 162,187 | 197,793 | 98,293 |
| \$1,408,401 | \$ - | \$ 4,966,201 | \$ 4,969,146 | \$ 1,411,346 |

Huron Valley Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Huron Valley Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 and the cash management system (CMS) grant auditor report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Huron Valley Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

| CFDA Numbers | Name of Federal Program or Cluster |
|-------------------------|------------------------------------|
| 84.027, 84.173, 84.027A | Special Education Cluster |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Huron Valley Schools

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

Section II - Financial Statement Audit Findings

| Reference Number | Findings |
|---------------------|---|
| 2008-I | <p>Finding Type - Significant deficiency</p> <p>Criteria - Defeased debt, a nonrecurring complex transaction, should be accounted for in accordance with generally accepted accounting principles.</p> <p>Condition - While Huron Valley Schools (the "School District") did identify the correct elements related to the transactions, the School District did not accurately record the refunding of the 1998 bonds. As a result of the audit process, adjustments were identified to correctly record the defeasance of the 1998 bonds and issuance of the 2008 refunding bonds.</p> <p>Context - During the year, the School District defeased certain debt obligations. This transaction is essentially a refinancing of the obligation to reduce the overall cost of the debt to the School District. There are many elements to the transaction and requires the accurate treatment of each element in the accounting records. Management identified the elements of the transaction that needed to be recorded for the 1998 bond refunding but recorded certain elements of the transaction incorrectly on the fund level general ledger during the year.</p> <p>Cause - Management possessed a working knowledge of the requirements but did not have a complete understanding of how to record all the various components of a complex bond refunding transaction.</p> <p>Effect - Prior to audit adjustments, certain fund level amounts were not recorded as required by generally accepted accounting principles.</p> <p>Recommendation - Since these transactions tend to be nonrecurring, management should consider developing an accounting tool or other accounting aid to assist in the recording of defeased debt amounts if they were to occur in the future.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Management worked closely with the auditors to correctly record the transaction and increase their understanding of how the elements should be recorded for the bond refunding. Management now has a clearer understanding of the various components of the refunding and how each one should be recorded on the fund level financial statements and plans to create a workaid as a guide for the future.</p> |

Huron Valley Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Section III - Federal Program Audit Findings

None

Huron Valley Schools

**Report to the Board of Education
June 30, 2008**



Plante & Moran, PLLC
Suite 500
2901 Carriage Court
Ann Arbor, MI 48106
Tel: 248.375.7100
Fax: 248.375.7101
planteandmoran.com

To the Board of Education
Huron Valley Schools

We have recently completed our audit of the basic financial statements of Huron Valley Schools for the year ended June 30, 2008. In addition to our audit report, we are providing the following required audit communication, summary of unrecorded possible adjustments, other recommendations, and informational comments which impact the school district:

| | <u>Page</u> |
|--|-------------|
| Results of the Audit | 2-5 |
| Summary of Unrecorded Possible Adjustments | 6-7 |
| Other Recommendations | 8-10 |
| Informational Items | 11-17 |

We are grateful for the opportunity to be of service to Huron Valley Schools. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 8, 2008

Results of the Audit

October 8, 2008

To the Board of Education
 Huron Valley Schools

We have audited the financial statements of Huron Valley Schools for the year ended June 30, 2008 and have issued our report thereon dated October 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the School District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 8, 2008 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our communication about planning matters on August 18, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the accrual of liabilities at the fund and government-wide reporting levels.

Management's estimate of the accrued obligations is based on a valuation of the extent of services provided as of June 30, 2008. We evaluated the key factors and assumptions used to develop the School District's accrued obligations in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedules summarize uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole except for certain adjustments related to the recording of the defeasance of debt occurring in the current year.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated October 8, 2008.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the School District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the School District's auditors.

To the Board of Education
Huron Valley Schools

October 8, 2008

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated October 8, 2008.

In addition to the comments and recommendations in this letter, our observations and comments regarding the School District's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards (single audit report), and we recommend that the matters we have noted there receive your careful consideration.

This information is intended solely for the use of the Board of Education and management of Huron Valley Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Eric V. Formberg", written in a cursive style.

Eric V. Formberg

October 8, 2008

Client: Huron Valley Schools
Opinion Unit: Governmental Activities
Y/E: June 30, 2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pre-tax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Long-term Assets | Current Liabilities | Long-term Liabilities | Equity | Revenue | Expenses | Pre-tax Income |
|------------------------------|--|----------------|------------------|---------------------|-----------------------|--------|---------|-------------|----------------|
| KNOWN MISSTATEMENTS: | | | | | | | | | |
| A1 | Equipment acquired/into improperly included in AP | | | \$ (44,849) | | | | \$ (44,849) | \$ 44,849 |
| A2 | Software license improperly included in AP | | | (8,783) | | | | (8,783) | 8,783 |
| ESTIMATE ADJUSTMENTS: | | | | | | | | | |
| B1 | Post retirement benefit obligation related to life insurance - amounts will increase when people currently working but receiving benefits when retired are factored in | | | 74,000 | | | | 74,000 | (74,000) |
| IMPLIED ADJUSTMENTS: | | | | | | | | | |
| | | \$ - | \$ - | - | \$ - | \$ - | \$ - | - | - |
| | Combined effect - Before Income taxes | - | - | 20,368 | - | - | - | 20,368 | (20,368) |
| | Effect of Income taxes | - | - | - | - | - | - | - | - |
| | Total | \$ - | \$ - | \$ 20,368 | \$ - | \$ - | \$ - | \$ 20,368 | \$ (20,368) |

To the Board of Education
Huron Valley Schools

October 8, 2008

Client: Huron Valley Schools
Opinion Unit: General Fund (Major Governmental Fund)
Y/E: June 30, 2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The probable effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

| Ref. # | Description of Misstatement | Current Assets | Long-term Assets | Current Liabilities | Long-term Liabilities | Equity | Revenue | Expenses | Pretax Income |
|------------------------------|---|----------------|------------------|---------------------|-----------------------|--------|---------|-------------|---------------|
| KNOWN MISSTATEMENTS: | | | | | | | | | |
| A1 | Equipment expenditure improperly included in AP | | | \$ (44,849) | | | | \$ (44,849) | \$ 44,849 |
| A2 | Software license improperly included in AP | | | (8,783) | | | | (8,783) | 8,781 |
| ESTIMATE ADJUSTMENTS: | | | | | | | | | |
| B1 | | | | | | | | | |
| B2 | | | | | | | | | |
| IMPLIED ADJUSTMENTS: | | | | | | | | | |
| C1 | | | | | | | | | |
| C2 | | | | | | | | | |
| | | \$ - | \$ - | - | \$ - | \$ - | \$ - | - | - |
| | Combined effect - Before income taxes | - | - | (53,632) | - | - | - | (53,632) | 53,632 |
| | Effect of income taxes | - | - | - | - | - | - | - | - |
| | Total | \$ - | \$ - | \$ (53,632) | \$ - | \$ - | \$ - | \$ (53,632) | \$ 53,632 |

Other Recommendations

INTERNAL CONTROL OBSERVATIONS AND SUGGESTIONS

During our audit process, we attempt to identify opportunities for the District to revise or update its system of internal control. The primary goal of internal control is to provide reasonable (as opposed to an absolute) protection to the District and its assets and financial information. We appreciate the District has limited resources and must look to maximize the benefits from the resources it utilizes. With that in mind, we offer the following for District consideration as it continues to improve its operations.

- *Information Technology Access:* During our review, we noted that no formal process exists to immediately notify IT of terminated employees. Notification of a terminated employee is currently occurring informally (email or verbal) by the supervisor, HR, or others aware of the departure contacting IT; the communication is not formally documented. A formal process (paper or electronic) should be implemented to document and file within IT or HR the date/time of employee termination and all access deleted by IT. For key accounting and operational staff, the transactions of the user should be reviewed by the supervisor or HR to ensure that unauthorized activity is detected and reviewed at termination.
- *Community Services Fund:* This fund experienced an increase in its fund deficit in the current year. During the year, the pool and fitness center was added to the Community Services Fund, contributing to this increase in fund deficit. We suggest that management review the projected revenue and expenditure activity of this fund to determine if it will be able to eliminate this deficit.
- *Special Education Grant Proportionate Share Requirement:* The District is required by this federal grant to meet a proportionate share requirement. This involves documenting its effort via a proportionate share calculation and contacting non-public schools within the District to inform them that special education services are available. We understand that the Michigan Department of Education may increase its monitoring of this newer requirement and we suggest that the District develop a process to complete the proportionate share calculation and contact non-public schools within the District regarding the availability of special education funding.
- *IDEA Grant:* During our testing, we noted that there was no formal documentation of the IDEA director's approval for specific teachers to be charged to the IDEA grant. However, the District did properly maintain semiannual certifications along with other documentation to support those charged. We recommend that the District improve its documentation process by obtaining the approval of teachers by the IDEA director.

- *Journal Entry Review:* The review of journal entries in a school district can be a cumbersome process. However, this review process can be a beneficial control in ensuring that the adjustments were processed appropriately. During our testing, we noted that the accounting coordinator has the ability to post journal entries, and the only ones reviewed by the supervisor of finance are those related to cash. In addition, the supervisor of finance has the ability to post journal entries, but a process is not in place for these to be reviewed. The District does have various mitigating controls in place such as budget vs. actual reviews by the supervisor of finance and accounting coordinator, as well as various levels of review for cash disbursements, cash receipts, and wire transfers. To the extent the value of the control exceeds the cost of applying the controls; we recommend that all journal entries be reviewed by appropriate personnel.

Informational

STATE AID ISSUES

2007/2008

2007 brought many financial challenges to the School District. Chief among them was the State's inability to put a budget plan together, resulting in a short state shut-down in October. These budget challenges at the State level meant that the School District operated for three months without knowing the final funding level the State was to provide for the 2007/2008 fiscal year. Once the plan was agreed to, the State was able to fully fund the plan, meaning the School District did not have to face the possibility of another proration. The result of the measures put in place, among many features, included the following:

Foundation Allowance

No proration and the School District did receive the promised \$7,308 foundation allowance (a 1.6 percent increase). As part of the legislation, the State modified the foundation allowance concept. This modification added a sliding scale equity payment to the foundation formula. The base foundation increase was \$48 per pupil. The lower funded school districts, like Huron Valley, received an additional \$46 per pupil. The equity payment element was phased out at a foundation allowance of \$8,433.

Categoricals

The above actions taken also allowed the State to fully fund the categoricals promised in the 2007 State Aid Act legislation.

Retirement Rate

Legislation restructured the elements computing the MPERS retirement rate, creating a lower cost to the retirement system. The School District paid in 17.74 percent through September 30, 2007. Beginning October 1, 2007, the rate was reduced to 16.72 percent.

2008/2009

For 2008/2009, the governor and Legislature continued to work through the State's budget issues. Once again, schools were asked to establish budgets without knowing the level of funding to be provided by the State. In July 2008, a compromise was reached.

Foundation Allowance

The budget agreement provides for a \$110 increase (1.5 percent increase) in the School District's foundation allowance to \$7,418. As part of the agreement, the State continued with its sliding scale equity payment concept within the foundation formula. The base foundation increase is \$56 per pupil. The lowest funded districts receive an additional \$56 per pupil. The equity payment is received by districts, including Huron Valley, with a foundation allowance below \$8,489.

Retirement Rate:

The 2008/2009 retirement rate has been determined. The rate for the fiscal year beginning October 1, 2008 will be 16.54 percent.

Kindergarten Full-funding "Intent" Language:

As part of the budget plan, the amendments to the State Aid Act include "intent language" to move toward a full-day kindergarten requirement. Essentially the language provides that, beginning in fiscal year end 2009-2010, half-day developmental kindergarten programs would be funded at 50 percent (current law fully funds those programs). In addition, kindergarten programs would be fully funded in fiscal year 2010-2011 if they operated for 60 percent of a day, and fully funded in FY 2011-2012 if they operated for 70 percent of a day.

21st Century Schools:

The amendments to the State Aid Act also provide resources with a focus on increasing graduation rates. Grants of up to \$3.0 million would be made available to school districts with less than a 70 percent graduation rate, as long as the school district matched the grant funds. The school district would have to graduate at least 80 percent of their students by the third year, and 80 percent of those students would have to go on to postsecondary education, or the school district would have to return 50 percent of the grant.

As the State's budget year moves forward, it will monitor the revenue intake with periodic revenue-estimating conferences. State law requires that the appropriations cannot exceed revenue estimates. As a result, it is possible there could be reductions to school district funding if the State is not able to generate the funding levels identified in the May 2008 revenue-estimating conference.

Proration

As of the date of this letter, there is no indication that the State of Michigan is expecting to face the need for proration. However, the significant economic events witnessed during September and early October 2008 suggests that Michigan will likely not experience an economic recovery in the near term. The next formal assessment of the State's revenues is scheduled for mid-January 2009. Given such economic concerns, we suggest that the School District carefully monitor continuing events and apply appropriate assessments regarding the State's ability to fully fund its appropriations from the School Aid Fund.

FUND BALANCE

During the 2007/2008 fiscal year, the School District continued to face a lower level of funding increase provided by the State of Michigan. This fact and the likely lower than inflation level expected for 2008/2009 continues to put pressure on the operating budget and fund equity.

During the 2007/2008 school year, the School District's General Fund expenditures exceeded revenue by approximately \$219,000. This resulted in reducing the General Fund equity to approximately \$14,794,000 at June 30, 2008. Especially in light of the state's struggling economy, we feel that it is important for the School District to maintain its fund equity at an appropriate level. The benefit to the School District of maintaining appropriate fund equity is the ability to meet unforeseen circumstances, like the implementation of state aid proration, without significantly affecting the level of programs for the year. This gives the School District time to work out financial changes without the need for sudden or drastic reactions to adverse circumstances. The need for fund equity will continue to be important due to the funding caps imposed by school finance reform, as experienced over the last few years, continuing concerns over the financial health of the School Aid Fund, and continued cash flow concerns due to the receipt of over 18 percent of the School District's state aid after the school year has ended.

Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2007 (excluding Detroit) is approximately 13.34 percent of expenditures and equals approximately seven weeks of operations. Huron Valley's fund equity percentage is 15.5 percent and equals approximately eight weeks of operation.

Especially in light of the challenges the State is facing to fund public education, as part of the School District's goal-setting for the upcoming year, the Board of Education should continue to focus on the level of General Fund balance that the board wishes to maintain. Once such a goal is determined, each succeeding year's budget should include a provision to accomplish the School District's desired fund balance level. Clearly, the School District will continue to face difficult budget challenges in 2008/2009. Given the continued uncertainties with State funding, budget planning and fund balance management will continue to be essential elements for School District success.

RECENT AUDITING PRONOUNCEMENTS

Initially Effective for the June 30, 2007 Fiscal Year

2007 began a period of significant change in how school district audits are to be conducted. The following audit standards changed what an auditor must do to document the audit effort and what an auditor must disclose related to a school district's financial information related internal controls.

Statement on Auditing Standards No. 103 - Audit Documentation - The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board issued this Statement on Auditing Standards (SAS), which superseded SAS 96. This standard clarified and increased the requirements that auditors must follow in obtaining, managing, and retaining documentation that supports the audit opinion. It prescribes the form, content, and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditor's report and creates a "lock down" date for the audit file.

The substantive implication of this new standard is that our audit process included more specific requests for information from the School District, increased coordination with the School District to "complete" the audit, and required the School District to be well prepared for audit prior to the start of the year-end field work.

Statement on Auditing Standards No. 112 - Communication of Internal Control Related Matters Noted in an Audit - The American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued this Statement on Auditing Standards (SAS), which superseded SAS 60. This standard established requirements and provided guidance to enhance the auditor's communication responsibility to the audit committee, if one exists, or the Board of Education concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces and therefore eliminates the term "reportable condition"), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or the Board of Education in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements. When a school district has a single audit (audit of federal programs) completed as required by the federal government, significant deficiencies and material weaknesses will be included in that report as findings in the schedule of findings and questioned costs.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The substantive implications of this new standard include:

- This Standard provides more specific criteria regarding the types of deficiencies that should be considered significant deficiencies. Auditors will be required to label these deficiencies accordingly.
- Auditors will be required to officially report on more internal control related items than in the past. This results from the lower reporting threshold that is used to determine when a control deficiency must be officially reported that is created by the Standard.

Initially Effective for the June 30, 2008 Fiscal Year

The standards initially effective for June 30, 2008 audits continue the process of redefining how the audit is to be conducted. These standards, combined with the standards discussed above, have changed much of what occurs during the audit process and what is provided to the Board of Education and others charged with governance.

Statement on Auditing Standards No. 104 to No. 111 - *The Risk Assessment Standards* - The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) that have substantially affected the auditing process. The effective date for all school district audits is for the audit of the financial statements for the year ended June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the school district and its internal control, for purposes of identifying the risks of material misstatement in the financial statements and (2) what the school district is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for Michigan schools. As a result, our 2008 audit process included many new features and elements. We worked with the District to understand the elements, involved it in the information gathering process, and performed audit tests focused on the risks embedded in the school district's financial statements. To provide the School District with as much lead time as possible in the data gathering process, we reviewed the information needs and provided the School District with the necessary tools. We appreciate that change can be difficult and time consuming. Our goal was to ensure any changes made were done with a purpose and the changes focused on issues directly impacting your School District.

RECENT I.R.S. CHANGES TO DEFERRED COMPENSATION RULES

The IRS recently announced a change in position surrounding staff who choose to be paid over a 12-month period rather than over the shorter school year. Under the change, the employee will not be considered to have a "deferred compensation" arrangement if:

- The payment of any recurring compensation is not deferred beyond the last day of the 13th month following the beginning of the school year; and
- The amount deferred from one taxable year to the next is not more than the general dollar deferral limit in effect under Code Section 402(g) (currently, \$15,500 in 2008) for the calendar year in which the school year begins.
- Prior to this Notice, the IRS had taken the position that if an employee elected to be paid over a 12-month period rather than over the shorter school year, the employee had deferred compensation. As a result, both the school district and the employee needing to comply with the requirements of Code Section 409A, which governed deferred compensation arrangements.

The result of this new notice will "eliminate the possibility of additional tax under 457(f) and 409 for most teachers and schools," according to the IRS. Taxpayers can rely on Notice 2008-62 immediately, "beginning with the first taxable year that includes July 1, 2008."

Federal Program Cash Management Change

For many years, the 30-day rule said a school district could request up to 30 days of future cash needs when submitting a reimbursement request for federal grant funds. MDE recently sent a communication that beginning in the 2007 fiscal year, a school district can only request up to three days of future cash needs and that the MEGS system now reflects this change. This can have a big impact on cash flow for school districts that relied on the 30-day rule. We want to ensure that School District administrators are aware of this change, as future audits will be following these revised rules.